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FISCAL IMPACT STATEMENT

LS 6685 **NOTE PREPARED:** Jan 5, 2006
BILL NUMBER: SB 366 **BILL AMENDED:**

SUBJECT: Funding of child welfare services.

FIRST AUTHOR: Sen. Breaux **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill makes the following changes beginning in 2007. It:
(1) Eliminates authority for a county to impose levies for a county family and children's fund or children's psychiatric residential treatment services fund (child welfare levies).
(2) Specifies that the state will fund child services and children's psychiatric residential treatment services.
(3) Adjusts distributions of Financial Institution Tax, Motor Vehicle Excise Tax, and Local Income Tax distributions affected by the elimination of child welfare levies.
(4) Establishes procedures to eliminate shortfalls of revenue in tax increment financing (TIF) areas resulting from the elimination of child welfare levies.

The bill also corrects internal references in the property tax replacement fund law and corrects obsolete references to the division of family resources. The bill makes related changes and it makes an appropriation.

Effective Date: Upon passage; January 1, 2007.

Summary of Net State Impact: The net additional state cost of the credits in this bill after applying the tax amnesty program collections as provided for in this bill is estimated as follows:

Estimated Cost of Child Welfare Credits After Non-Dedicated Tax Amnesty Collections Applied

	FY 2007	FY 2008	FY 2009
Credits	$195 M	$356 M	$368 M
Amnesty Funds*	195 M	14 M	0
Net Cost after Amnesty Funds*	0	$342 M	$368 M

* The Amnesty Funds only reflects collections as of 12/31/2005 so the net cost of the credit will be reduced as additional funds become available through 6/30/2006.

Explanation of State Expenditures: *Child Welfare Levy*: Beginning in CY 2007 under this proposal, the state will assume responsibility for funding expenditures that are currently paid from the county family and children and the county children's psychiatric residential treatment services funds. [The gross levy for these funds is collectively known as the child welfare levy. The net child welfare levy is equal to the gross levy amount less all state-paid credits (PTRC and Homestead Credit).] The child welfare levies would be eliminated.

Under current law, the statewide minimum PTRC/Homestead Credit amount is equal to (1) the amount spent in CY 2002 for PTRC and Homestead Credits ($1,121.7 M), plus (2) the amount of revenue expected to be raised by 1% of the current 6% Sales Tax rate. For years beginning in CY 2007, this bill would reduce the CY 2002 base amount by $30.0 M, to $1,091.7 M. The reduction amount equals the approximate amount of state credits paid in CY 2002 on the children's welfare funds.

The bill also reduces the FY 2007 appropriation for PTRC and Homestead Credits by $10 M. One-third of CY 2007 PTRC/Homestead Credit is paid to counties in FY 2007 and two-thirds is paid in FY 2008. The $10 M amount is equal to one-third of the 2002 PTRC/Homestead credit ($30 M) paid on child welfare.

The statewide total gross child welfare levy was $284.7 M in CY 2005 and is projected at $348.2 M in CY 2006, $410.0 M in CY 2007, $430.2 M in CY 2008, and $451.5 M in CY 2009.

The statewide total net child welfare levy was $250.1 M in CY 2005 and is projected at $297.6 M in CY 2006, $349.7 M in CY 2007, and $358.8 M in CY 2008, and $375.9 M in CY 2009.

The state cost is calculated by spreading the CY gross levy estimates evenly between the two fiscal years and then reducing that amount by the state's savings of PTRC/Homestead Credit. Assuming that future PTRC/Homestead credit appropriations would not include credits for child welfare funds, the net cost of the credits is estimated at $195 M in FY 2007, $356 M in FY 2008, and $368 M in FY 2009.

Cost estimates are based on growth estimates for assessed values and children's welfare levies as outlined below. These estimates may be updated at a later date if new information is obtained.

Child Welfare Levy Methodology: Estimates of assessed value by county begin with the 2005 abstract AV for all real property, homesteads in particular, and personal property by county. These amounts were broken out further using county property record card data. Adjustments include the remaining inventory deductions in CY 2006 and CY 2007, the $880/acre base farmland assessment beginning in CY 2006, and annual real property

AV adjustments beginning in CY 2007 (including equalization).

Estimates of children's psychiatric residential treatment services fund levies by county begin with the 2005 gross levy. The 2005 levies were then grown at 3.9% per year.

Estimates of county family and children's fund levies for CY 2006 begin with the county adopted levies for CY 2006. The 2006 levies must be certified by the DLGF by February 15, 2006. Changes in the amount levied by each county are possible until that time.

CY 2007 levy estimates were increased by the cost of new programs that will be implemented sometime in CY 2006. CY 2007 and later levies were assumed to grow at 5% per year, the three-year (2002-2005) average annual statewide growth in this levy.

Explanation of State Revenues: *Child Welfare Levy*: The state would receive a portion of county Motor Vehicle Excise Tax and Financial Institutions Tax (FIT) revenue beginning in CY 2007. The amount transferred to the state would be equal to the average annual amount of tax attributable to the children's welfare funds over a three-year period, CY 2004 - CY 2006.

Tax Amnesty Funds: Under this proposal, the State Budget Agency would be required to certify the amount of available revenue received, or to be received, under the state's tax amnesty program. The available amount would equal the collections received or expected, less the amounts in those collections that are attributable to local taxes or from certain other fees and taxes. The available amount would be transferred to a special non-reverting account in the General Fund that would be used only for the purpose of paying for child services.

The Department of State Revenue reports that the money received under the Tax Amnesty Program through December 2005 which would be certified through the above calculation would be approximately $209.3 M. It must be noted that this estimate does not account for the portions of individual Local Option Income Tax and Financial Institutions Tax that will be distributed to political subdivisions.

Background: The Tax Amnesty Program began on September 15, 2005, and ended on November 15, 2005. The program was enacted in P.L. 236-2005 to allow payment of tax liability without penalty by taxpayers who:

(1) had never filed (nonfilers);
(2) filed a return, but underreported income, misapplied credits or deductions; or
(3) did not file a subsequent return (accounts receivable).

According to the Department of State Revenue, over 91,000 taxpayers took advantage of the program. Total amnesty collections for all taxes through December of 2005 were equal to $210.2 M. The Department of State Revenue has reported that after all payments are collected, the total amount of all collections from the amnesty program will equal close to $255 M with administrative expenses currently estimated at $12 M.

Explanation of Local Expenditures: *Child Welfare Levy*: Local expenditures would be reduced beginning in CY 2007 by the amount of spending from the child welfare funds.

Counties that have adopted a county-funded homestead credit in addition to the state homestead credit would pay slightly less for the credits under this proposal. Under the bill, beginning in CY 2007, the net levy on which COIT homestead credits are based would be reduced by the net levies for the child welfare funds. COIT proceeds that are not used for homestead credits are distributed to civil units as certified shares.

In a county that has adopted a CEDIT rate to pay for homestead credits to offset shifts from eliminating property tax on inventory, the necessary CEDIT tax rate could be slightly lower because the net shift would be slightly lower.

The cost of other credits that are based on the net tax billing that may be available in some counties would also be slightly reduced as a result of this proposal

Explanation of Local Revenues: *Child Welfare Levy*: Beginning in CY 2007, local revenues would be reduced by the amount of net property tax levy, PTRC and Homestead Credits, excise tax, and FIT distributions attributable to the child welfare funds. The reduction in local expenditures and the reduction in local revenues should be the same.

The bill allows the governing body of a TIF or TIF-like district to impose special assessments if the elimination of the child welfare tax rates would reduce tax revenue to an amount that is insufficient to make bond payments.

State Agencies Affected: Department of Child Services (DCS); Department of Local Government Finance; Department of State Revenue; State Budget Agency.

Local Agencies Affected: Counties.

Information Sources: Local Government Database; DCS; County real property assessment records; county auditor's abstracts; Bureau of Economic Analysis; Office of Federal Housing Enterprise Oversight; State Budget Agency.

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